

Metropolitan Nashville Airport Authority

MEMORANDUM

TO: Raul Regalado, President and CEO

CC: Monty Burgess, Senior Vice President and COO
Kinney Baxter, Senior Vice President and Chief Engineer
Stan Van Ostran, Vice President and CFO
Christine Vitt, Director of Construction
Butch Gelband, Director of Planning
Robert Ramsey, Director of Design

FROM: Julie Zwicknagel, Internal Auditor

DATE: April 22, 2010

SUBJ: Grant Administration Audit Report

Background

The Federal Aviation Administration (“FAA”) Airport Improvement Program (“AIP”) provides grants to public agencies for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems (“NPIAS”). For large and medium primary hub airports, the grant covers 75% of eligible costs (or 80 percent for noise program implementation). For small primary, reliever, and general aviation airports, the grant covers 95 percent of eligible costs.

A public-use airport is an airport open to the public that also meets the following criteria: publicly owned, privately owned but designated by FAA as reliever, or privately owned but having scheduled service and at least 2,000 annual enplanements. Public agencies owning public-use airports are eligible to receive AIP for planning, development, or noise compatibility. Recipients of grants are referred to as sponsors.

Eligible projects include those improvements related to enhancing airport safety, capacity, security, and environmental concerns. In general, sponsors can use AIP funds on most airfield capital improvements or repairs and in some specific situations, for terminal, hangars, and non-aviation development. Any professional services that are necessary for eligible projects such as planning, surveying, and design are considered eligible. Projects related to airport operations and revenue-generating improvements are typically not eligible for funding. The table below lists typical examples of eligible and ineligible projects.

Eligible Projects	Ineligible Projects
Runway construction/rehabilitation	Maintenance equipment and vehicles
Taxiway construction/rehabilitation	Office and office equipment
Apron construction/rehabilitation	Fuel farms
Airfield lighting	Landscaping
Airfield signage	Artworks
Airfield drainage	Industrial park development
Land acquisition	Marketing plans
Weather observation stations ("AWOS")	Training
NAVAIDs such as REILs and PAPIs	Improvements for commercial enterprises
Planning studies	Maintenance or repairs of buildings
Environmental studies	
Safety areas improvements	
Airport layout plans ("ALP")	
Access roads only located on airport property	
Removing, lowering, moving, marking, and lighting hazards	

Airport sponsors who accept a grant offer are also accepting conditions and obligations associated with the grant assurances. The following list includes some of the major obligations an airport owner can incur when accepting a Federal airport development grant:

1. Prohibition of exclusive rights;
2. Use of airport revenue;
3. Proper maintenance and operation of airport facilities;
4. Protection of approaches;
5. Keeping good title of airport property;
6. Compatible land use;
7. Availability of fair and reasonable terms without unjust discrimination;
8. Adhering to the approved airport layout plan;
9. Self-sustainability;
10. Minimum wage requirements;
11. Sale or disposal of Federally acquired property;
12. Preserving rights and powers;
13. Using acceptable accounting and record-keeping systems; and
14. Compliance with civil rights requirements.

Because the demand for AIP funds exceeds the availability, FAA bases distribution of these funds on present national priorities and objectives. AIP funds are typically first apportioned into major entitlement categories such as primary, cargo, and general aviation. Remaining funds are distributed to a discretionary fund. Set aside projects (airport noise and the Military Airport Program) receive first attention from this discretionary distribution. The remaining funds are true discretionary funds that are distributed according to a national prioritization formula.

The Nashville International Airport is classified as a medium hub airport, which is a primary airport that enplanes between 0.25% and 1% of the total annual U.S. enplanements, and the John C. Tune (“JWN”) airport is classified as a general aviation airport.

For large and medium primary hub airports, federal grant covers 75% of eligible costs with a requirement for matching funds. The Metropolitan Nashville Airport Authority (“Authority”) utilizes several funding sources for capital projects including federal and state grants, Passenger Facility Charges (“PFC”), Customer Facility Charges (“CFC”) and local funds. The Authority usually utilizes PFC’s or local funds as the matching share for federal grants.

The first step in the grant administration function is the capital budgeting process, during which future projects are identified and the funding sources for each project is determined. For federally and state funded projects, the Authority’s Director of Planning is responsible for the grant application and approval processes. The Authority submits federal applications to the FAA Airport District Office (“ADO”) when federal funding is available. The federal grant application, Standard Form (“SF”) 424 and supporting documents, together with FAA Form 5100-100 (Appendices 3 and 4) are required to be submitted to the FAA before issuance of a grant. The federal application includes the application for federal assistance, project narrative, estimated cost, project sketch, etc.

Current FAA policy requires that FAA base grant offers on defined costs as opposed to estimated costs; therefore, FAA recommends that sponsors submit the project application at the time bids are received for the project. Project formulation costs such as planning, surveying, and design are allowed prior to the grant offer. The FAA evaluates each project for eligibility, justification, reasonableness of cost, priority assessment, reasonableness of project schedule, and information deficiencies.

Once the federal funding request has been approved by the FAA, executed copies of the grant offer are issued to the Authority for approving signatures (President & CEO, Legal, and Staff Secretary) and returned to the FAA.

The Authority’s Finance Accountant is responsible for requesting federal grant reimbursement requests. Once a month, the Accountant reviews project expenses and determines the amount of reimbursement due from FAA on a project-by-project basis. The Accountant creates a draw down request and makes copies of all invoices that have been paid for each specific project. The Accountant requests the Financial Services Administrator to request the grant reimbursement through the FAA ECHO system. The requested funds are electronically transferred generally within three days.

The Authority is required to submit quarterly reports to the FAA utilizing SF425 Form, which is submitted by the Accountant on a quarterly basis. Once the project has been completed and all the federal grant monies received, the Authority initiates the grant closeout process. The closeout of a grant is the process by which the FAA and the sponsor perform the necessary final administrative actions to complete all requirements of the grant agreement. The closeout process will usually require an examination of the following three areas: project work completion, administrative requirements, and financial requirements.

The Authority had the following federal grants active as of December 31, 2009:

Grant No.	Project Description	Date Awarded	Amount Awarded	Amount Drawn LTD	Available
	BNA Federal Grants				
77	Construct 2L-20R Runway Safety Area	08/24/06	2,565,724	2,390,471	175,253
77	Construct 2R-20L Runway Safety Area	08/24/06	2,869,126	2,774,023	95,103
	Grant 77 Total		5,434,850	5,164,494	270,356
81	Reconstruct Taxiway Bravo South	06/19/08	1,883,192	1,576,194	306,998
81	Access Control System Replacement	06/19/08	3,266,221	2,526,751	739,470
81	Unallocated Total	06/19/08	100,483	0	100,483
	Grant 81 Total		\$5,249,896	\$4,102,945	\$1,146,951
HSTS04-08-H-CT1186	Permanent In-Line EDS	10/01/07	20,000,000	12,075,640	7,924,360
82	Reconstruct Runway 2L-20R	02/20/09	996,766	996,766	0
83	Terminal Apron Repair	5/15/09	4,788,316	3,372,400	1,415,916
84	Reconstruct Runway 2L-20R Phase II	07/27/09	15,478,380	6,099,768	9,378,612
85	Wildlife Hazard Assessments	09/17/09	61,260	0	61,260
86	Reconstruct Runway 2L-20R Phase III	09/17/09	4,871,985	0	4,871,985
2008-GE-T8-0048	Bomb Robot		125,000	125,000	0
	BNA Federal Grants Awarded Totals		57,006,453	31,937,013	25,069,440

In addition to federal funding the Authority receives grants from the State of Tennessee. The State of Tennessee has been providing financial aid to airports since 1930. In 1986, the Tennessee General Assembly adopted legislation that created the State Transportation Equity Fund. The fund allocates receipts from taxes collected from transportation fuels for distribution to airports, rail and waterways based on their contributions to the fund. For aviation, these monies are administered by the Tennessee Department of Transportation (“TDOT”) with the advice and assistance from the Tennessee Aeronautics Commission. These funds are used for statewide grants to Tennessee air carrier and general aviation airports, which can cover up to 90 percent of the total cost of airport projects depending on the type of project.

In October 1997, Tennessee became one of nine states in the nation selected to participate in the FAA State Block Grant Program. As a participant, the State of Tennessee has the sole responsibility for deciding the distribution of federal funds for improvement projects at general aviation and non-primary commercial service airports. As the John C. Tune airport is a general aviation airport, the State of Tennessee accordingly administers both the state and federal funding for JWN.

All applications for state assistance for airport improvement projects must be submitted by the Authority with an assurance that local matching funds are available. The state grant application includes the application for funding assistance, project narrative, explanation of need, exhibits (if applicable), estimated cost, and comments, which is submitted to the Aeronautics Division. The airport sponsor is required to present the requested projects at the Aeronautics Commission meetings if the project costs are greater than \$100,000 or a grant

amendment greater 15% or \$100,000. The Aeronautics Commission meetings are held generally every other month. The Commission's recommendation is forwarded to the Commissioner of Transportation and the applicant will be advised of the Commissioner's decision.

Each request for funding is evaluated by the State on the basis of demonstrated need, consistency with state and local plans, compliance with state licensing standards, availability of funds and any unique circumstances. Projects eligible for state funding and the percentage of state matching participation are summarized below.

SECURITY PROJECTS (90% State)	
Security Fencing and Gates	
Signage to Alert the Public of Restricted Areas	
Security Lights and/or Motion Sensor Lights around the Terminal	
SAFETY PROJECTS (90% State)	
Obstruction Clearing	Primary Taxiway
Runway	Land
Obstructions in FAA Defined Imaginary Surfaces	
AIRSIDE IMPROVEMENTS AND ENHANCEMENTS (75% State)	
Automated Weather Systems	Runway Capacity Improvements
Runway Glideslope and Identification System	Approach NAVAIDS
Taxiway Lighting	Airfield Ramps
Other Traditional Airside Projects	Terminal "Buildings"
Ground Communications Outlet	ARFF Vehicles (Part 139 Airports)
LANSIDE IMPROVEMENTS AND ENHANCEMENTS (50% State)	
Land for Commercial Development	Access Roads (on airport property)
Maintenance Hangars Fuel Farms	Utilities
Fuel Farm	Obstruction Clearing (outside transitional surfaces)
Auto Parking Lots	
PLANNING (80% State)	
Master Plans and Feasibility Planning	Airport Layout Plans and Engineering Drawing
Environmental and Impact Standards	Tee Hangar Contraction Design, Site Plans and Inspection
Obstruction Analysis Studies	

Once the state funding request has been approved by the Commissioners, an approval letter is sent to the Authority. The Authority can then proceed with the project by obtaining bids for the proposed improvement. The Authority submits the results to the Aeronautics Division and

requests the grant contract. TDOT sends the grant documents to the Authority for approving signatures (President & CEO, Board Chairman, and Legal) and returns documents for the Commissioner's final approval. Then the executed grant agreement is sent to the Authority.

It should be noted that the State has recently modified their funding requirements and they require the Authority to have the state grant in place before any expenses are incurred, including advertising costs.

The Authority's Finance Accountant is responsible for requesting State grant reimbursements. Once a month, the Accountant reviews project expenses and determines the amount of reimbursement due from the State on a project-by-project basis. The Accountant gathers all invoices that have been paid for each specific project and submits to the State two copies of the invoices along with a letter requesting the amount of the grant reimbursement. The State reviews and approves the request, transfers the funds requested, and sends the Authority notification that the funds have been transferred. It takes approximately two to three months for the Authority to receive grant reimbursement from the State.

Once the project has been completed and the Authority has drawn down all grant monies from the State, there are no formal reports required to be issued to the State indicating the completion of the project. Instead, the final draw letter indicates that the current draw is the final draw for the grant and the Accountant follows up with the State by sending an email to verify the grant has been closed.

The Authority had the following state grants active as of December 31, 2009:

Grant	Project Description	Date Awarded	Amount Awarded	Amount Drawn LTD	Available
BNA State Grants					
1016	Retaining Wall on Taxiways Juliet and Lima	4/1/2008	495,000	474,813	20,187
1020	General Aviation Area Land Use Plan	12/1/2006	337,500	234,689	102,811
1023	Airfield Pvmnt Rehab Dsgn 2L-20R/2R-20L Rnwy Sfty /	10/1/2005	245,495	135,961	109,534
1025	Airport Rotating Beacon	12/1/2007	90,000	64,345	25,655
1028	Construct 2L-20R Runway Safety Area	12/1/2006	425,730	396,558	29,172
1028	Construct 2R-20L Runway Safety Area	12/1/2006	480,078	455,624	24,454
1031	Pavement Management & MOD Study	12/1/2006	450,000	444,399	5,601
1033	GIS Application Development	10/1/2007	75,456	74,367	1,089
1052	Access Control System Replacement	7/1/2008	544,370	405,845	138,525
1053	Reconstruct Taxiway Bravo South	7/1/2008	313,865	257,551	56,314
1054	Develop GA Area S Murfreesboro Rd & E Rwy 2C	4/1/2008	228,123	196,697	31,426
1056	Hydrant System Test Station and Isolation Valve	6/1/2008	121,500	121,500	0
1057	Terminal Roof Replacement	6/1/2008	1,636,200	1,515,158	121,042
1058	TARI Phase I (Roads & Bridge work)	6/1/2008	3,425,000	3,425,000	0
1059	Professional Services Contract	9/24/2008	45,000	0	45,000
1062	Reconstruct FIS Facility	12/8/2008	30,250	21,506	8,744
1064	Westside Spill Gates	7/1/2008	88,200	83,534	4,666
1066	DPS Bomb Robot	1/22/2009	187,785	83,650	104,135
1067	In-Line EDS	1/22/2009	6,800,000	3,138,634	3,661,366
1068	Toll Plaza Addition- (Emergency grant) Trench Drain	11/1/2008	49,209	49,209	0
1069	Reconstruct Runway 2L-20R (Construction)	4/2/2009	166,127	166,127	0
1070	Reconstruct 13-31 East & Taxiway Tie-Ins	4/2/2009	163,919	163,919	0
1071	Reconstruct Taxiway T-4 (Design)	6/1/2009	54,000	43,958	10,042
1072	Westside AWOS	6/1/2009	36,885	36,885	0
1072	FAA Duct Bank Relocation *amended	6/1/2009	339,315	25,490	313,825
BNA State Grants Awarded Totals			16,829,007	12,015,417	4,813,590
JWN State Grants					
1034	Runway Safety Area Improvements (30% Design)	07/07	288,810	39,264	141,663
1035	Extension of Perimeter Road, Phase I	04/08	566,753	39,546	0
1049	North Ramp Development	12/06	1,881,000	39,052	85,874
1050	NEXWOS	04/08	66,244	39,539	3,750
1051	JWN Repair Irregularities in Runway 2-20	05/08	1,131,720	39,576	129
1060	Taxiway "A" South Extension and Apron	09/08	185,400	39,715	85,313
1061	GPS CAT I Approach System	09/08	42,300	39,715	42,300
JWN State Grants Awarded Totals			4,162,227	276,407	359,030
Total BNA & JWN State Grants Awarded			20,991,234	12,291,824	5,172,620

It should be noted that the PDC and Finance departments are working together sufficiently to administer the Authority's federal and state grant programs. There were no major issues identified during the audit. However, there are some areas for improvement needed to ensure federal and state grant administration processes are better organized, funding changes are well documented, and a better awareness of grant agreement terms and conditions.

Objectives

The objectives of the audit were as follows:

1. Determine compliance with federal and state grant requirements; and
2. Document and evaluate existing internal controls around the grant administration process.

Testing

In order to satisfy the audit objectives, the following tests were performed:

1. Obtained a listing of all grants, both open and closed, as of December 1, 2009.
2. Selected 5 open and 5 closed grants and performed the following:
 - a. Obtained a copy of the grant application, original grant award, and grant amendments (if applicable).
 - b. Reviewed the requirements in each grant. Obtained and reviewed all project documentation and determined whether all requirements were successfully met. Such requirements included, but were not limited to the following:
 - i. Required approvals.
 - ii. Activities allowed or unallowed.
 - iii. Davis Bacon Act.
 - iv. Matching, level of effort, earmarking.
 - v. Period of availability of funds.
 - vi. Procurement requirements, such as obtaining bids.
 - vii. Payment terms and conditions.
 - viii. Financial reporting requirements.
 - ix. Disadvantaged Business Enterprise (“DBE”) requirements.
3. For the same 10 grants selected above, obtained the grant file from Finance and performed the following:
 - a. Reviewed all grant draws for mathematical accuracy.
 - b. Reviewed all transactions for each grant within the Epicor system for accuracy.
 - c. Reviewed supporting invoices for mathematical accuracy.
 - d. Compared life-to-date grant budget amounts to the incurred costs and determined that each grant was not in an overrun status.
 - e. If the project was closed, reviewed the final project reports to ensure that the grant was accurately closed.
 - f. Reviewed internal controls around the cash transfer and approval process.
4. Through inquiry and observations, reviewed the existing internal controls in place.

Conclusion

Based upon the audit, the following was determined with respect to the stated objectives:

1. Enhancements should be made to the tracking of federal funding, as noted in finding #1.
2. The 3rd quarter recipient report submitted under Section 1512(c) of the Recovery Act was not properly stated, as noted in finding #2.
3. The Authority is not complying with Recovery Act drawdown requirements, as noted in finding #3.
4. A state grant reimbursement request was submitted for services performed prior to the grant effective date, as noted in finding #4.
5. The Authority is not complying with state invoicing requirements, as noted in finding #5.

Finding #1

Observation

Enhancements should be made to the tracking of federal funding.

Background

Through audit testing, Internal Audit reviewed the Director of Planning's funding summary worksheets for state and federal funding. The state funding summary included the project budget, funding need, funding sources and percentages, application amount, grant amount requested, grant award, amendments, and total grant agreement. Additionally, the worksheet included the Authority's overall state equity fund balances to date. The state funding summary included all the information needed to see the funding of a project from beginning to end.

The federal funding summary worksheet included the grant number, project description, original grant amount, some amendments and carry over items, discretionary amount, and entitlement amount. The worksheet also included the Authority's overall entitlement and discretionary fund balances from 1999 – 2009. The federal funding summary was not as well organized as the state funding and the funding for federal projects was not as clear from project initiation to completion.

For example, the federal funding summary information for federal grant #80 was as follows:

Grant	Projects	Year	Discretionary	Entitlement	Total Original Grant Amount
80	Runway Lighting Runway 2L-20R	2007			
	Rehabilitate Runway 13-31		\$10,800,000	\$280,227	
	Rehabilitate Taxiway Alpha South			2,175,000	
	Rehabilitate taxiways Lima and Juliet between Taxiways T-4 and T-6			1,700,437	
	Upgrade de-icing trench drain			44,491	
Total 2007		\$10,800,000	\$4,200,155	\$15,000,155	

However, the flow of funding from start to finish is noted below:

Grant No	Project No	Projects	Transfer approval	Application Amount	Grant Award	Transfer Approval	Amendment #1	Total Grant Agreement	Final Distribution of Grant Funds
80	0473	Relocate Electrical Vault on Westside (additional money) **	From grant #78 to #80	\$280,227	\$280,227			\$280,227	\$186,121
	0642	Rehabilitate Runway 13-31))		10,725,000	10,800,000		983,513	11,783,513	12,639,662
	0611	Rehabilitate Taxiway Alpha South		2,175,000	2,175,000			2,175,000	1,784,474
	0566	Rehabilitate taxiways Lima and Juliet between Taxiways T-4 and T-6		1,529,151	1,700,437			1,700,437	1,368,520
	0816	Upgrade de-icing trench drain		44,491	44,491	Project cancelled; approval to use monies for #0642		44,491	4,891
	Total			\$14,753,869	\$15,000,155		\$983,513	\$15,983,668	\$15,983,668
		** FAA approved transfer of \$280,227 from grant #78 for additional work on Electrical Vault project							
)) Project originally programmed for PFC funding							

As noted above, project funding is fluid and will continue to change through the capital budgeting process and the amount of federal funding monies the Authority receives from year to year. Therefore, it is best practices to track federal funding from project initiation to completion to ensure funding sources are properly accounted for and changes are well documented.

It should also be noted that the Authority can go over in some projects and under in others as long as the total federal entitlement amount is not exceeded. Currently, the Director of Planning does not receive a copy of the final federal grant financial closeout information from Finance, which would be helpful to account for any remaining entitlement monies available.

Recommendation

The Director of Planning should revise the federal summary worksheet to track federal funding from project initiation to completion to ensure funding sources are properly accounted for and changes are well documented.

Additionally, the Finance Department should provide the Director of Planning with a copy of the final federal grant financial closeout information (SF425 Form) in order to have a final accounting of the distribution of grant funds for PDC files.

Management Response

PDC will add this recommendation to their Project Execution Process to begin May 1, 2010.

Finance will provide the Director of Planning a copy of the final federal grant financial closeout information (SF425 Form) when it is filed.

Finding #2

Observation

The 3rd quarter recipient report submitted under Section 1512(c) of the Recovery Act was not properly stated.

Background

In May 2009, the Authority received \$4,788,316 in grant funding from the American Recovery and Reinvestment Act of 2009 (“Recovery Act”) for project #0914: Terminal Apron Repair. The grant covered 100% of the allowable costs incurred to accomplish the project, meaning there was no local match required.

The Recovery Act grants have additional Special Conditions related to (1) Sponsor’s responsibility with new reporting requirements required by the statute, (2) timeframes for executed contract documents and Notice to Proceed, (3) acknowledgement of FAA’s authority to close grants for non-compliance to Special Conditions or other provisions, (4) regular contract drawdowns, (5) appropriate actions to complete the projects under grant by February 16, 2011, and (6) acknowledgement of limited abilities to amend the grant.

According to Section 1512(c), Accountability and Transparency, under the Recovery Act, awardees of Recovery Act funds must comply with the following reporting requirements:

- c. Recipient Reports – No later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains:
 1. The total amount of recovery funds received from that agency;
 2. The amount of recovery funds received that were expended or obligated to projects or activities; and
 3. A detailed list of all projects or activities for which recovery funds were expended or obligated, including:
 - a. The name of the project or activity;
 - b. A description of the project or activity;
 - c. An evaluation of the completion status of the project or activity;
 - d. An estimate of the number of jobs created and the number of jobs retained by the project or activity; and
 - e. For infrastructure investments made by State and local governments, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act,

and name of the person to contact at the agency if there are concerns with the infrastructure investment.

4. Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act or 2006 (Public Law 109-282), allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

The Finance Department submits the recipient reporting information electronically through federalreporting.gov, on a quarterly basis (effective the quarter ending September 30, 2009). The results of the electronic submissions are published on recovery.gov, the U.S. government's official website providing easy access to data related to recovery spending and recipients reported data.

An objective of the audit was to determine compliance with financial reporting requirements. Through reviewing the quarterly reports submitted for the Recovery Act, Internal Audit noted that the Authority submitted the reports no later the 10 days after the end of each quarter and the report included all the aforementioned criteria.

However, Internal Audit determined that the 3rd quarter report was not properly stated in the Total Federal Amount ARRA Funds Received/Invoiced category. This category is defined as the amount of Recovery Act funds received through draw-downs, reimbursements, or invoices. The report stated the amount received as \$250,000; however, the draw-downs received as of September 30, 2009, were \$1,317,014, as detailed below.

Grant Draw No.	Draw Date	Amount
1	6/19/2009	\$69,912
2	8/18/2009	403,888
3	8/18/2009	11,784
4	9/16/2009	831,430
Total Federal Recovery Act Funds Received		\$1,317,014

As noted above, the 3rd quarter report was understated in the amount of \$1,068,014.

Internal Audit and Finance's Accountant contacted the FAA Regional Office to determine how the Authority could correct the 3rd quarter report. FAA indicated that they did not have the capability to correct prior reports but were working on a solution. They requested the Authority to keep detailed records of the error and indicated the FAA would contact the Authority when the FAA had the capability of fixing the reporting error.

Recommendation

The Finance Department should ensure quarterly reports are properly stated prior to submission. The 3rd quarter reporting error should be corrected, once the FAA has the capability of correcting prior reports.

Management Response

Finance concurs with this recommendation. The amount reported (\$250,000) appears to be an amount on the form sample that should have been overwritten at the time of entry of the correct data. Finance will revise its current process to require a second staff member to review the accuracy of the data in the quarterly report before it is submitted.

Finding #3

Observation

The Authority is not complying with Recovery Act drawdown requirements.

Background

According to Section 6, Drawdowns, of the Recovery Act grant amendment No.1 for project #0914: Terminal Apron Repair, "The Sponsor shall make timely payments for costs incurred (construction, engineering, etc.) and shall request payment reimbursement or initiate ECHO drawdowns at least every 30 days as evidence of such payments. Payment requests or drawdowns shall only be for reimbursement of work completed and shall only be required if contractor payments have taken place in preceding period."

An objective of the audit was to determine compliance with Recovery Act grant payment terms and conditions. Through audit testing, Internal Audit determined that Finance exceeded the 30 day requirement between grant draw numbers four and five as noted below.

Grant Draw No.	Amount	Draw Date	No. of Days between Draws
4	831,430	9/16/2009	
5	<u>1,690,032</u>	10/30/2009	44 days
Total	\$2,521,462		

Through reviewing grant draw number five detailed information, Internal Audit determined that there were payments in the amount of \$1,690,032 for the period September 17, 2009, through October 31, 2009. Additionally, the grant draw had payments in the amount of

\$989,137 for the period September 17, 2009, through October 1, 2009, and \$700,895 for the period October 16, 2009 through October 31, 2009.

Accordingly, grant draw number five should have been broken into two separate grant drawdown requests to ensure that the Authority complied with the grant requirement of drawdowns at least every 30 days.

It should be noted that all other drawdowns were requested within the 30 day requirement.

Recommendation

The Finance Department should request drawdowns at least every 30 days to ensure compliance with Recovery Act grant agreement terms and conditions.

Management Response

Finance concurs that this recommendation, but wished to note that all of the grant drawdown requests presented were paid without comment by the administering agency. Nevertheless, Finance will make ensure that future grant drawdown requests are submitted in compliance with terms of the grant.

Finding #4

Observation

A state grant reimbursement request was submitted for services performed prior to the grant effective date.

Background

According to Section B, Grant Contract Term, of State Grant Agreement #1070 for Project #0642: Reconstruct 13-31 East and Taxiway Tie-Ins, "This Grant shall be effective for the period commencing April 2, 2009 and ending September 30, 2013. The State shall have no obligation for services rendered by the Grantee which are not performed within the specified period.

The amount of the state grant was \$163,919 with 12.5% of the total project costs reimbursable to the Authority.

Through reviewing Finance's grant file, it was determined that there was one grant draw requested from the State of Tennessee. An invoice in the amount of \$1,664,594 was submitted to the State for reimbursement of the full amount of the grant. However, the date of the invoice payment was January 14, 2009, which was approximately 2 ½ months prior to the grant effective date.

Through further audit testing, it was determined that Project #0642: Reconstruct 13-31 East and Taxiway Tie-Ins had originally been programmed for PFC funding. PFC application #12 was approved on April 6, 2006, for Project #0642 in the amount of \$15,625,000.

After the PFC funding was secured, the Authority was notified by the FAA that they were eligible to receive discretionary funding for Project #0642. On August 7, 2007, the Authority received \$10,800,000 in a discretionary grant for the project.

The funding sources for the project ended up being approximately 59% federally funded and 42% PFC funded.

Through the construction process, PDC determined that there were additional repairs that needed to be completed on the runway that could not have been anticipated in the project design. Therefore, the FAA approved the Authority to amend the federal grant utilizing 2009 entitlement funds. The funding sources for the amendment are noted below.

Funding Sources	Amount	%
Federal	\$983,513	75%
PFC	163,919	12.50%
State	163,919	12.50%
Total	<u>\$1,311,351</u>	<u>100%</u>

The federal grant amendment was effective February 23, 2009, and PFC's were already approved and in place. The Authority applied for the state grant on January 16, 2009, presented to the Aeronautics Commission February 12, 2009, and the grant was awarded on April 2, 2009.

As of March 31, 2009, the construction on the project was approximately 99.83% completed. The Authority had made payments to the Contractor in the amount of approximately \$15,946,949 out of the total contract amount of \$15,973,669. Therefore, Finance requested state grant reimbursements on payments made prior to the grant effective date because there were not enough monies remaining to draw down on the project after the state grant was awarded.

Furthermore, on June 6, 2008, the Authority amended PFC application #12 for Project #0642 from \$15,625,000 to \$10,800,000. On October 15, 2009, the Authority further reduced PFC application #12 for Project #0642 from \$10,800,000 to \$5,355,535, the final amount of PFC's utilized for the project.

Through reviewing the projects funding analysis, it appears that the Authority could have amended the federal grant utilizing PFC funds for the 25% match because the funding was approved and available.

Below is a final accounting of the funding sources utilized for Project #0642.

Funding Sources	Amount	%
Federal	\$11,783,513	68.10%
PFC	5,355,535	30.95%
State	163,919	0.95%
Total	<u>\$17,302,967</u>	100%

Recommendation

PDC should better communicate and coordinate with the Finance Department any funding changes, including anticipated grant amendments that would impact funding sources not being in place prior to grant reimbursement requests.

The Finance Department should ensure grant reimbursement requests submitted to the State are for services performed within the grant effective date. If a grant reimbursement request is outside the grant's effective date, Finance should notify the Chief Legal Officer and seek guidance on how to proceed with the request.

Management Response

PDC will add to their process the coordination with Finance any funding changes on projects before and after the federal or state grants execution. PDC has already incorporated a change in their process by applying for state grants each year in July for the FY CIP projects approved by the board. The state process changed and to avoid any future issues these applications require an early start to ensure reimbursement will be received.

Finance concurs with this recommendation.

Finding #5

Observation

The Authority is not complying with state invoicing requirements.

Background

According to Section C.5, Invoice Requirements, of State Grant Agreement #1067 for Project #0570: In-Line EDS, "The Grantee shall invoice the State no more often than monthly, with all the necessary supporting documentation.

- a. Each invoice shall clearly and accurately (all calculations must be extended and totaled correctly) detail the following required information.
1. Invoice/Reference Number;
 2. Invoice Date;
 3. Invoice Period;
 4. Grant Contract Number;
 5. Account Name;
 6. Account/Grantor Number;
 7. Grantee Name;
 8. Grantee Federal Employer Identification Number;
 9. Grantee Remittance Address;
 10. Grantee Contact;
 11. Complete Itemization of Reimbursement Requested for the Invoice Period, which shall detail, at minimum, the following:
 - i. Reimbursement Amount Requested by Grant Budget Line-Item for the invoice period;
 - ii. Amount Reimbursed by Grant Budget Line-Item to Date;
 - iii. Total Amount Reimbursed under the Grant Contract to Date; and
 - iv. Total Reimbursement Amount Requested for the invoice period.”

Additionally, the State of Tennessee requires the Grantee to send an original and two copies of official letter head requesting the amount to be reimbursed along with two collated copies of invoices, and two collated copies of back-up data (i.e. receipted invoices, posted or cancelled checks used in payment for the project).

An objective of the audit was to verify the Authority was complying with state grant payment terms and conditions. Through audit testing, Internal Audit determined that the grant invoices submitted to the State for reimbursement included all the aforementioned criteria; however, Finance submitted three (3) grant reimbursement requests in one month for Project #0570 as noted below.

Invoice No.	Invoice Date	Date Mailed	Grant Reimbursement Amount
7	10/29/2009	10/30/2009	\$309,676.47
8	10/29/2009	10/30/2009	349,099.31
9	10/29/2009	11/4/2009	563,376.01
Total Grant Reimbursement Requested			\$1,222,151.79

Through further audit testing, it was determined that the 6th invoice submitted to the State was dated August 17, 2009, and an invoice request was not submitted in September 2009. Therefore, it appears that the 7th invoice should have been submitted in September; the 8th invoice in October; and the 9th invoice in November 2009.

Recommendation

The Finance Department should submit grant reimbursement requests to the State no more often than monthly to ensure compliance with grant agreement terms and conditions.

Management Response

Finance concurs with this recommendation, but wishes to note that all of the grant drawdown requests presented were paid without comment by the administering agency. Nevertheless, Finance will ensure that future drawdown requests are submitted pursuant to the terms of the grant.

This finding reflects three separate transactions that match invoices and drawdowns on a credit line for the project. Finance staff decided not to aggregate the invoices for drawdown purposes on the line of credit to more clearly document these individual transactions. However, these invoices should have been aggregated when preparing the grant drawdown to comply with the terms of the grant.